SGGF III

Saskatchewan Government Growth Fund III Ltd.

2008 Annual Report

Creating economic wealth and
diversification through investment of immigrant
investor capital in Saskatchewan

INDEX

Fund Profile 1

Message to Investors 2

Investment Profiles 3

Management Discussion and Analysis 4

Management's Responsibility for Financial Reporting 8

Auditors' Report 9

Financial Statements 10

Five Year Financial Summary 22

Corporate Information 23

FUND PROFILE

Saskatchewan Government Growth Fund III Ltd. ("SGGF III" or the "Fund") is a government-administered venture capital fund pursuant to the Immigration Regulations, 1978 (Canada), as amended. It was formed in 1994 to enable immigrant investors to invest in businesses operating in Saskatchewan and facilitate the investors' qualification as Canadian permanent residents under the Immigrant Investor Program.

FINANCIAL HIGHLIGHTS

- The Fund incurred a loss of $1.7 million in 2008 and has an accumulated deficit at December 31, 2008 of $3.7 million.
- The Fund incurred negative net revenue of $1.6 million for the year, reflecting a significant decrease in the fair value of investments.
- The principal amount repaid on Notes at maturity was $165,000, and all Notes have now matured. Additional payments will be made when cash becomes available from the liquidation of investments.

The priority of Saskatchewan Government Growth Fund III Ltd. in 2008 continued to be the liquidation of its remaining investments to provide funds for payments to Noteholders.

The Fund incurred a loss of $1.7 million (2007 – $3.7 million), reflecting a significant decrease in the fair value of investments. The Fund has an accumulated deficit at December 31, 2008 of $3.7 million, compared with $2.0 million at December 31, 2007.

Payments to Noteholders on maturity of the Notes are established periodically based on forecasts of cash expected to be available from disposal of investments and scheduled maturities of Notes. This ensures that all investors are treated equally on the maturity of their Notes. In 2002, the amount paid at maturity was set at $150,000. In 2003, the payment at maturity was increased to $160,000 and in 2004, to $165,000.

The Fund has three remaining investments. The timing and amount of future payments on the Notes are dependent on the disposal of these three investments. Only one of these investments is likely to generate significant proceeds on disposal. It is an investment in Big Sky Farms Inc., a private company which is one of the largest hog producers in Canada. At the time of writing the 2007 Annual Report, the hog industry had been seriously affected by a sharp drop in the market price of hogs, the strengthening of the Canadian dollar, which lowers the amount companies receive on exports to the United States, and record high feed prices in western Canada. The hog markets continued to be volatile through 2008. These factors have caused reductions in fair value of the investment and losses in the Fund in 2007 and 2008. During the last quarter of 2008, a gradual improvement was observed in these markets, and the current outlook for 2009 is a return to profitability in the hog industry. It is unlikely that there will be an opportunity to dispose of this investment until 2010.

In April 2008, changes were made to the Board of Directors with the appointments of Elizabeth Nash and John Hyshka to replace Rollie Hardy, Lloyd Boutilier, Darrel Cunningham and Harwood Davies. In March 2009, John Hyshka left the Board and Neil Buechler, Dave Farrell, Brent Martian and Mary-Lynn Waschuk were appointed as Directors. We extend our thanks to Messrs. Hardy, Boutilier, Cunningham, Davies and Hyshka for their contributions to the Fund.

In a volatile market, it is difficult to make reliable assumptions as to the possible proceeds and timing of sale of investments. However, based on the current outlook for the disposal of the remaining investments held by the Fund, it is unlikely that the Fund will be able to repay the full remaining principal amount of Notes. The objective of the Fund is to dispose of the remaining investments in 2010.

As significant new developments occur, this information will be provided to the Noteholders.

E.M.Nash

Elizabeth M. Nash
Chair

Alan Rowe

Alan M. Rowe
President

March 6, 2009

The following are profiles of investments held by SGGF III during 2008, including the principal amount invested at December 31, 2008, and a description of the companies' operations. The date of the initial investment in each company is noted in parentheses.

Big Sky Farms Inc. (January 1996)
$3,000,000 – 1,263,360 common shares – 11.1% ownership

Big Sky Farms, headquartered in Humboldt, Saskatchewan, operates a number of farrow-to-finish hog operations in Saskatchewan and Manitoba. These operations are among the largest hog production facilities in Canada.

Fairmount Energy Inc. (July 2004) (TSX:FMT)
35,740 common shares

Fairmount Energy is an oil and natural gas exploration and development company. The Fund received its shares in the company in 2004 on reorganization of Star Biotech Inc. (now Star Bio Investments Inc.), a company in which the Fund invested in 1998.

Star Bio Investments Inc. (January 1998)
$52,284 – common shares – 3.1% ownership

Star Bio Investments Inc. is a successor company to Star Biotech Inc. Star Biotech was a Saskatoon-based biotechnology company which used advanced technologies to develop and produce high value-added, bio-engineered vaccines for animals and humans. In 2002, the Fund's debt investment was converted to shares and the company sold its assets for a combination of cash and equity and royalty interests in other companies. In 2004, the company reorganized and the Fund received common shares of Star Bio Investments Inc., which holds the equity and royalty interests, and of Fairmount Energy Inc. The shareholders of Star Bio Investments resolved in 2008 to wind up the company, and to distribute to the shareholders, its investment in MetaMorphix, Inc., a private U.S. life sciences company specializing in livestock and health care. The Fund's recovery on this investment is dependent on the success of MetaMorphix and the Fund's ability to dispose of this investment.

Background

Saskatchewan Government Growth Fund III Ltd. ("SGGF III" or the "Fund") is an immigrant investor fund which operates in accordance with the regulations of the federal Immigrant Investor Program (the "IIP"). The Fund began commercial operations in 1994 when it accepted its first subscription deposits. The Fund is financed by subscriptions received from immigrant investors. The objective of the Fund is to invest the proceeds of subscriptions in eligible businesses in Saskatchewan for a five year period as required by the IIP. This allows the immigrant investor to satisfy the investment requirements of the IIP for a Canadian-resident visa.

Investor notes

SGGF III's activities are financed by immigrant investors who have subscribed for unsecured, subordinated promissory notes ("Notes") offered through an Offering Memorandum. Interest at the rate of 2% is paid on the Notes only until maturity. The Notes are subordinate to all other liabilities of the Fund and repayment is dependent on the proceeds on liquidation of investments and all other available liquidity in excess of other liabilities.

The Notes mature five years from the date of issue. The IIP requires that the maturity date of a Note be extended if, and for so long as, less than 70% of the amount of the Note is invested in the active business operations of eligible businesses in Saskatchewan.

SGGF III was closed to new subscription applications on July 31, 1997.

At December 31, 2008, Notes outstanding totalled $9.3 million (2007 – $9.3 million), representing 109 Notes (2007 - 109 Notes) on which principal payments totalling $165,000 each have been paid to investors.

The Fund's cash flow projections indicated that timing differences existed between planned liquidations of investments and scheduled investor repayments as Notes became due. In order to treat all investors equally, the payment on Notes at maturity was initially set at $150,000. In 2003, the payment was increased to $160,000 and in 2004, the payment was increased to $165,000. The payment of any amount in addition to the initial payment at maturity is dependent on the liquidation of investments, many of which are in private companies as required by the IIP. These investments typically have more risk than other types of investments. Any forecast of when such investments will be liquidated reflects a best judgment based on current information, and involves a number of risks and uncertainties and other factors that may cause actual results to differ materially from the forecast. If the assumptions underlying current forecasts prove to be correct, payment of additional amounts may be possible in 2010; however, based on these forecasts, it is unlikely that the Fund will be able to repay the full principal amount of the Notes. The cash flow forecast will be reviewed quarterly and available cash will be distributed to investors.

SGGF III continues to actively manage its remaining investments with a view to achieving for investors the best liquidation proceeds available in the prevailing circumstances.

Investments

The investment policy of the Fund reflects the requirements imposed by both the IIP and the Offering Memorandum. To meet these requirements, the Fund has established a target initial investment allocation consisting of:

- a maximum of 50%, and a minimum of 30%, invested in small and medium-sized enterprises ("SMEs") in Saskatchewan;
- a maximum of 30%, and a minimum of 20%, invested in loans to support infrastructure projects of the Province of Saskatchewan, and its agencies, municipalities and similar institutions; and,
- the balance invested in cash or liquid debt securities.

As investments are divested over time, the actual portfolio mix changes. Investments in SMEs and loans to support infrastructure qualify as "eligible businesses" for purposes of the IIP.

The following table sets out the investments of the Fund by type at December 31 in each year:

	2008			2007		
	No.	**$ millions**	**%**	No.	$ millions	%
Other investments						
Small and medium-sized enterprises						
Equity investments	**3**	**3.1**	**93.9**	3	3.1	91.2
Total	**3**	**3.1**	**93.9**	3	3.1	91.2
Cash		**0.2**	**6.1**		0.3	8.8
		3.3	**100.0**		3.4	100.0
Adjustment to fair value		**2.3**			3.9	
Carrying value		**5.6**			7.3	

Investment and other income realized in 2008 totalled $8,000, compared with $17,000 in 2007. A decrease of $1.6 million (2007 – $3.8 million) in fair value of investments was recorded. Net revenue in 2008 was negative $1.6 million, which included a significant decrease in the fair value of one investment in 2008, compared with negative 3.8 million in 2007.

Management

The Fund is managed by the Saskatchewan Government Growth Fund Management Corporation ("SGGF MC") under a contract which provides for a management fee not to exceed 3.0% of the net assets of the Fund. SGGF MC has contracted administration and investment advisory services from Crown Capital Partners Inc. ("CCPI"), a private, national investment advisor based in Regina, Saskatchewan, and retained subadvisors to provide investment advisory services. CCPI is paid a monthly fee for its services and will receive a performance fee based on the retained earnings, if any, of the Fund after all investor Notes are repaid in full and all investments have been liquidated. The subadvisors were paid a performance fee based on the performance of investments managed by them.

Administration expense for the Fund totalled $125,000 in, compared with negative $87,000 in 2007. Administration expense in 2007 included the reversal of an accrual of $214,000 for performance fees based on current fair values of investments. The fees would have been payable only when investments have been liquidated. Administration expense represented 1.9% (2007 – negative 0.9%) of weighted average total assets.

Results of operations

In 2008, the Fund incurred a loss of $1.7 million, compared with $3.7 million in 2007. In both years, the loss resulted from a decrease in the fair value of investments. Investment income on weighted average total assets, before gains on disposal and the adjustment to fair value, was 0.1% (2007 – 0.2%). Unrealized losses were negative 24.8% (2007 – realized gains on disposal and unrealized losses, net – negative 41.2%). Expenses were 1.9% (2007 – negative 0.9%).

At December 31, 2008, the Fund had an accumulated deficit of $3.7 million compared with $2.0 million at December 31, 2007.

Outlook and risks and uncertainties

The priority of SGGF III is the management of its investment portfolio to maximize returns and to provide for liquidation of investments so that additional amounts can be paid on the outstanding balance of Notes.

The investment allocation of the Fund which is prescribed by the IIP and Offering Memorandum significantly influences the returns available to the Fund. Investments in SMEs, which initially can represent up to 50% of the Fund's investments, provide an opportunity for higher returns, but also carry a higher risk of losses than other investment types, and a greater challenge to achieving liquidity at the precise time that Notes mature. On the other hand, the balance of investments prescribed by the IIP, which consist of liquid securities and loans to finance infrastructure, are relatively low risk, but also provide low returns that reflect the lower risk exposure. The Fund has liquidated virtually all investments except for its remaining investments in SMEs.

The significant risks and uncertainties which affect the Fund relate to market risk, credit risk, capital risk, and liquidity risk. These risk factors are described in note 10 to the financial statements. The Fund manages these risks to the extent possible; however the factors may affect the ability of the Fund to repay its Notes at maturity. The Fund has no sources of funds to finance the repayment of its Notes other than the proceeds received on liquidation of its investments.

Dated as of March 6, 2009.

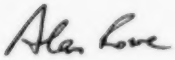
MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The President and fund manager of the Saskatchewan Government Growth Fund III Ltd. are responsible for management of the Fund. The accompanying financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles, and necessarily include amounts which are based on informed judgement and management estimates. Financial data presented elsewhere in this annual report is consistent with that in the financial statements.

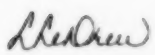
Management's responsibility includes ensuring the integrity and objectivity of financial information. Management maintains an appropriate system of internal accounting and administrative controls, policies and procedures to provide reasonable assurance that all transactions are authorized, financial records are complete and accurate, and assets are safeguarded against loss.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting. The Board has established an Audit Committee to review the Fund's accounting policies and financial statements prior to their presentation to the Board for approval. The Audit Committee also reviews the internal controls of the Fund, and meets regularly with the auditors. The Board has reviewed and approved these financial statements.

Deloitte & Touche LLP, the Fund's independent auditors, have examined the financial statements of the Fund. Their responsibility is to conduct an independent and objective audit and to report on the fairness of presentation of the Fund's financial position, results of operations and cash flows as shown in the financial statements. The Auditors' Report outlines the scope of their examination and their opinion.



Alan M. Rowe, C.A.
President



Lori K. Le Drew, C.M.A.
Controller, Crown Capital Partners Inc.

March 6, 2009

AUDITORS' REPORT

To the Shareholder of Saskatchewan Government Growth Fund III Ltd.:

We have audited the statement of financial position of Saskatchewan Government Growth Fund III Ltd. as at December 31, 2008, and the statements of operations and comprehensive loss, retained earnings (deficit) and accumulated other comprehensive income and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Regina, Saskatchewan
February 6, 2009

Saskatchewan Government Growth Fund III Ltd.
Statement of Financial Position

December 31	2008	2007
Assets		
Cash	$ 208,881	$ 325,132
Other investments (Note 5)	5,398,995	7,000,786
	$ 5,607,876	$ 7,325,918
Liabilities and Shareholder's Deficiency		
Accounts payable and accrued liabilities	$ 23,131	$ 22,453
Commissions payable (Note 6)	18,500	18,500
Subscription deposits (Note 7)	25,010	25,010
Investor notes (Note 8)	9,265,000	9,265,000
	9,331,641	9,330,963
Share capital (Note 9)	2,000	2,000
Deficit and other accumulated comprehensive income	(3,725,765)	(2,007,045)
	(3,723,765)	(2,005,045)
	$ 5,607,876	$ 7,325,918

See accompanying notes to the financial statements.

On behalf of the Board:

E.M Nash

Elizabeth M. Nash
Director

M-L Waschuk

Mary-Lynn Waschuk
Director

Saskatchewan Government Growth Fund III Ltd.
Statement of Operations and Comprehensive Loss

Year ended December 31	2008	2007
Revenues		
Income from cash	**$ 8,442**	$ 16,539
	8,442	16,539
Gains realized on disposal of other investments	**-**	1,602
Decrease in fair value of investments	**(1,601,791)**	(3,828,222)
	(1,601,791)	(3,826,620)
Net revenue	**(1,593,349)**	(3,810,081)
Expenses		
Administration (Note 11)	**125,371**	(87,420)
	125,371	(87,420)
Net loss for the year	**(1,718,720)**	(3,722,661)
Other comprehensive income	**-**	-
Comprehensive loss for the year	**$ (1,718,720)**	$ (3,722,661)

See accompanying notes to the financial statements.

Saskatchewan Government Growth Fund III Ltd.
Statement of Retained Earnings (Deficit) and Accumulated Other Comprehensive Income

Year ended December 31	2008	2007
(Deficit) retained earnings, beginning of year	**$ (2,007,045)**	$ 1,715,616
Net loss for the year	**(1,718,720)**	(3,722,661)
Deficit, end of year	**(3,725,765)**	(2,007,045)
Accumulated other comprehensive income, beginning of year	-	-
Other comprehensive income for the year	-	-
Accumulated other comprehensive income, end of year	-	-
Total deficit and accumulated other comprehensive income	**$ (3,725,765)**	$ (2,007,045)

See accompanying notes to the financial statements.

Saskatchewan Government Growth Fund III Ltd.
Statement of Cash Flows

Year ended December 31	2008	2007
Cash flows from operating activities		
Net loss for the year	**$ (1,718,720)**	$ (3,722,661)
Items not affecting cash:		
Net gains realized on disposal of other investments	**-**	(1,602)
Decrease in fair value of investments	**1,601,791**	3,828,222
Net change in accounts payable and accrued liabilities	**678**	(214,639)
Cash flows from operating activities	**(116,251)**	(110,680)
Cash flows from investing activities		
Disbursements on other investments	**-**	(69)
Repayments of other investments	**-**	1,671
Cash flows from investing activities	**-**	1,602
Net decrease in cash	**(116,251)**	(109,078)
Cash, beginning of year	**325,132**	434,210
Cash, end of year	**$ 208,881**	$ 325,132
Interest paid during the year	**$ -**	$ -

See accompanying notes to the financial statements.

Saskatchewan Government Growth Fund III Ltd.
Notes to Financial Statements
December 31, 2008

1. Status of the Corporation

Saskatchewan Government Growth Fund III Ltd. ("SGGF III" or the "Fund") was incorporated in October 1994 under *The Business Corporations Act* (Saskatchewan) and has been accepted as a government administered venture capital fund under the federal government's Immigrant Investor Program ("IIP"). Under this program, the Fund was established to raise $35,000,000 through a note offering. Each note is a 2% unsecured, subordinated debt instrument with a principal amount of $250,000, repayable in five years provided that 70% of the proceeds are invested in eligible businesses ("Notes") throughout the five year period. The Fund commenced operations in 1994. The marketing period for the Fund ended on July 31, 1997.

The Confidential Offering Memorandum ("Memorandum") and the IIP prescribe various conditions which qualify an investment as an eligible business, including a requirement that the business be Saskatchewan based and have assets, including assets of associated companies, of less than $35 million.

The Government of Canada and the Government of the Province of Saskatchewan offer no guarantees or assurances on the financial performance of the Fund or of a return of an investor's original investment. Neither government will be liable for any loss or damages suffered by an investor as a result of an investment in the Notes.

As described above, the Fund's purpose is to issue the Notes and make investments in accordance with the IIP. When the Notes mature, the Fund divests its investments, in due course, as appropriate opportunities arise. The investments are the Fund's only source of revenue. The Fund's activities will cease when all investments have been divested. The proceeds will be applied to the balances outstanding under the Notes, with residual resources, if any, being distributed to the shareholder.

2. Significant accounting policies

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The following are considered significant:

Financial instruments

All financial instruments are classified as one of: (a) held-to-maturity; (b) loans and receivables; (c) held-for-trading; (d) available-for-sale; or (e) other liabilities. Financial assets and liabilities held-for-trading are measured at fair value with gains and losses recognized in net income. Financial instruments classified as held-to-maturity, loans and receivables and other liabilities are measured at amortized cost. Available-for-sale financial instruments are measured at fair value, with unrealized gains and losses recognized in comprehensive income. Accumulated other comprehensive income is reported as a separate component of shareholder's equity. Embedded derivatives are accounted for as separate financial instruments and classified in accordance with the above-noted classifications. Investment companies are exempt from these accounting policies with respect to investments and are

Saskatchewan Government Growth Fund III Ltd.
Notes to Financial Statements (continued)
December 31, 2008

permitted under Accounting Guideline 18 of the Canadian Institute of Chartered Accountants ("CICA") to measure and report investments at fair value.

The Fund has designated its cash as held-for-trading, which is measured at fair value. Accounts payable, investor Notes and other liabilities are classified as other financial liabilities which are measured at amortized cost. The Fund has no embedded derivatives that need to be separately valued. Investments are measured and reported at their fair value.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may vary from the current estimates. These estimates are reviewed quarterly and adjustments are reported in the Statement of Operations and Comprehensive Loss in the period in which they become known. The primary measurement uncertainty which may affect the reported amounts relates to the determination of fair values of other investments as described in the following pages.

Revenue recognition

Income from debt investments ("loans") is recognized as earned except if the investment is impaired. A loan is considered to be impaired if, as a result of deterioration in credit quality, there is no longer reasonable assurance of the timely collection of the full amount of principal and interest. Any loan on which contractual payments are in arrears for 90 days or more is usually assumed to be impaired. Other factors that are considered in determining whether a loan is impaired are the overall credit quality of the borrower and the fair value of the underlying security. When a loan becomes impaired, recognition of interest income ceases. Income from equity investments is recognized when received.

The change in fair value of other investments during the year is included in the Statement of Operations and Comprehensive Loss. Fair values for other debt investments are determined by calculating the present value of the remaining payments under the loans. The discount rate used is based on the expected return at the date of the financial statements for a loan to an investee with similar risk characteristics. The discount rate is comprised of a base risk-free rate based on a Government of Canada bond with equivalent duration, a credit risk premium based on publicly-traded debt with a BBB credit rating, and an additional credit risk and liquidity premium based on the circumstances of the specific investee.

Fair values for other equity investments are determined by management on the basis of the expected realizable value of the investments as at the date of the financial statements if they were disposed of in an orderly manner over a reasonable period of time, discounted at a discount rate which is appropriate at the date of the financial statements to investments in similar companies. There is no active secondary market for many investments which are not publicly-traded, and there is considerable uncertainty and a potentially broad range of

Saskatchewan Government Growth Fund III Ltd.
Notes to Financial Statements (continued)
December 31, 2008

outcomes with respect to the future cash flows from these investments. Valuations of such investments are subject to a number of assumptions and uncertainties that may cause actual values realized on disposal to differ materially from the fair value estimated at any particular time.

Future accounting policy changes

In February, 2008 the Canadian Accounting Standards Board confirmed that publicly accountable enterprises, including the Fund, will be required to adopt IFRS in place of Canadian Generally Accepted Accounting Principles (GAAP) for interim and annual reporting in fiscal years beginning on or after January 1, 2011, including comparative figures. The Fund's activities will cease when all investments have been divested. If the Fund is wound up prior to 2011, no IFRS conversion will be required. If, during 2009, it appears unlikely that the Fund will be wound up prior to 2011, then the Fund will commence an IFRS conversion project including initiating the development of a high level IFRS implementation plan and preparation of a detailed review of major differences between current Canadian GAAP and IFRS.

At this time the impact on the Fund's future financial position and results of operations is not reasonably determinable. However, based on the analysis to date the most significant area of difference relates to financial statement disclosures. As part of the IFRS implementation, the Fund will make changes to certain processes and systems before 2010 to ensure transactions are recorded in accordance with IFRS for comparative reporting purposes on the required implementation.

3. Changes in accounting policies

Capital disclosures

Effective January 1, 2008, the Fund adopted the accounting standard Capital Disclosures contained in CICA Handbook Section 1535 in accordance with the transitional provisions of the section. The new standard requires disclosure of information related to the objectives, policies and processes for managing capital, and particularly whether externally imposed capital requirements have been complied with. The adoption of Section 1535 had no material impact on the financial statements.

Financial instruments disclosures and presentation

On January 1, 2008, the Fund adopted CICA Handbook Sections 3862, "Financial Instruments – Disclosures" and 3863, "Financial Instruments – Presentation". These Sections replace Section 3861, "Financial Instruments – Presentation and Disclosure". Section 3862 increases the disclosure requirements for financial instruments, the risks associated with them and how those risks are managed. Section 3863 establishes the standards for presentation of financial instruments. The adoption of these accounting standards had no material impact on the Fund's financial statements.

Saskatchewan Government Growth Fund III Ltd.
Notes to Financial Statements (continued)
December 31, 2008

4. Provisions of the IIP

Minimum holding period and maturity of the Notes

A Note is issued to evidence receipt of the full subscription amount on the date that at least 70% of the subscription amount has been invested in eligible businesses. Each Note is scheduled to mature five years from such date, provided the Fund maintains at least 70% of the Note continuously invested in the active business operations of eligible businesses for five years following the issuance date. The IIP contains provisions which require that the maturity date of a Note be extended if, and for such period that, a minimum of 70% of the Note amount ceases to be invested in the active business operations of eligible businesses.

5. Other investments

	2008	2007
Equity instruments	**$ 3,052,284**	$ 3,052,284
Adjustment to fair value	**2,346,711**	3,948,502
Carrying value	**$ 5,398,995**	$ 7,000,786

During the year, investments changed as follows:

	2008	2007
Balance, beginning of year	**$ 7,000,786**	$10,829,008
Net change in fair value	**(1,601,791)**	(3,828,222)
Balance, end of year	**$ 5,398,995**	$ 7,000,786

6. Commission payable

According to the terms of a marketing agreement entered into by the Fund, a commission is payable to the independent marketing agent selling the Note upon issuance of the investor's immigrant visa.

7. Subscription deposits

Subscription deposits represent partial deposits on Notes received prior to 1997 which have not yet been refunded to investors. The Fund was closed to deposits in 1997 and investors who have made partial subscriptions have no right to complete their subscription.

8. Investor notes

Investor notes represent the Notes issued to investors of the Fund. The Notes help to satisfy a portion of investors' visa requirements under the IIP. Interest to the maturity date of Notes is

Saskatchewan Government Growth Fund III Ltd.
Notes to Financial Statements (continued)
December 31, 2008

accrued at an annual rate of 2% from the date of Note issuance and is paid annually on December 31 until maturity and at maturity. The balance at December 31 is:

	2008	2007
109 Notes	**$ 9,265,000**	$ 9,265,000

All Notes have matured. The balance is comprised of 109 unsecured subordinated Notes with a remaining principal balance of $85,000.

The Notes are subordinate to all other liabilities of the Fund and repayment is dependent on the proceeds on liquidation of investments and other available liquidity in excess of other liabilities. The Notes are irrevocable, except in the case that a visa is denied.

As a result of differences in the timing of proceeds from investments and scheduled maturities of Notes, the Fund set repayments on each Note at its maturity, beginning in January 2002, at $150,000. In 2003, this amount was increased to $160,000 with a further increase to $165,000 in 2004. Based on the current outlook for the disposal of the remaining investments held by the Fund, it is unlikely that the Fund will be able to repay the full remaining principal amount of the Notes.

9. Share Capital

The authorized common share capital of the Fund at December 31 is:

Class A common shares – an unlimited number of voting common shares. Holders of these shares are not entitled to receive dividends.

Class B common shares – an unlimited number of voting common shares. Holders of these common shares are entitled to receive dividends.

The issued common share capital at December 31 is:

	2008	2007
2,000 Class A common shares	**$ 2,000**	$ 2,000

10. Financial risk management

The Fund's primary business was the raising of capital from immigrant investors and placing these funds in new and expanding Saskatchewan businesses. This investment activity entails exposure to market risk, including currency, interest rate and other pricing risks, credit risk, liquidity risk and capital risk. These risk factors may impact upon the Fund's ability to repay its Notes at maturity. These risk factors are described below.

Saskatchewan Government Growth Fund III Ltd.
Notes to Financial Statements (continued)
December 31, 2008

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk. Currency risk is the risk that future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. While the Fund invests only in Canadian-dollar denominated investments, thereby matching the currency of its Notes, investee companies may be exposed to fluctuations in currency rates because of sales denominated in foreign currencies. Interest rate risk is the risk that the Fund's earnings will be affected by fluctuations in interest rates. Other price risk includes other factors that affect market prices, other than currency and interest risk. This may include the ability of an investee company to profitably distribute its products. Most of the companies in which the Fund invests are dependent upon a single product or industry. The Fund manages this risk through careful due diligence prior to committing funds to the investment and by diversifying its investments across various industry sectors. In general, if market risks adversely affected the value of investments by 10%, net income and amounts available to repay Notes would be reduced by approximately $540,000, and alternatively favourable effects would increase net income and amounts available to repay Notes by the same amount.

Credit risk

Credit risk is the risk that a counter party will fail to discharge its obligations. Concentration of credit exposure may arise given that the Fund restricts its investments to businesses operating in Saskatchewan and therefore all investments are subject to a similar general economic environment. The Fund conducts thorough due diligence prior to committing to an investment and actively monitors the financial health of its investees on an on-going basis. The maximum exposure to credit risk is equivalent to the aggregate of balances reported in the financial statements as publicly-traded and short-term investments and debt instruments reported within other investments.

Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in liquidating its investments at the time it is required to repay its Notes. Due to the nature of some of the Fund's investments, the timing of cash flows from its investments may not exactly match the payments owing under the Fund's Notes. The Fund carefully monitors the duration of its investments. However, timing differences may require the Fund to reduce or delay the payments owing on Notes at maturity.

Capital risk and disclosure

Capital risk is the risk that the Fund will not have access to capital to finance its operations. The Fund has no sources of capital from which to draw on in the event that the proceeds of investments are insufficient to repay Notes. The Fund is not subject to externally imposed capital requirements.

Saskatchewan Government Growth Fund III Ltd.
Notes to Financial Statements (continued)
December 31, 2008

Fair value – investor notes

No secondary market for the Notes exists. Due to the unique features associated with the Notes, the calculation of a fair value with appropriate reliability is impractical. The risk factors that affect the fair value of investments, as described above, also affect the fair value of investor notes. Repayment of these Notes at maturity is dependent upon the value and liquidity of investments at that time.

11. Administration

Under the terms of a management agreement between the Fund and Saskatchewan Government Growth Fund Management Corporation ("SGGF Management Corporation"), SGGF Management Corporation administers the assets of the Fund with the assistance of a manager that performs fund administration and investment management together with several investment subadvisors. SGGF Management Corporation does not guarantee the financial performance of the Fund. Services provided to the Fund are charged on a fee for service basis together with a performance-based component which is payable only at such time that all Notes have been repaid. The costs billed to the Fund by SGGF Management Corporation are as follows:

	2008	2007
Manager's fees	**$ 100,157**	$ 103,572
General administration	**2,003**	2,071
Directors' fees and expenses	**3,477**	7,863
Legal and professional	**19,734**	12,851
	$ 125,371	$ 126,357
Change in provision for manager's profit share	**-**	(213,777)
	$ 125,371	$ (87,420)

12. Income taxes

A provincial Crown corporation, SGGF Management Corporation, owns all of the issued shares of the Fund. Therefore, the Fund is exempt from income taxes.

13. Related party transactions

Included in these financial statements are amounts resulting from transactions with SGGF Management Corporation pursuant to a management agreement referred to in note 11. Routine operating transactions with related parties are recorded at agreed upon exchange amounts and settled under normal trade terms. Total fees charged to the Fund by SGGF Management Corporation amounted to $125,371 (2007 - $126,357). Total fees payable to SGGF Management Corporation at December 31, 2008, and included in the above, are $6,358 (2007 - $5,681).

Saskatchewan Government Growth Fund III Ltd.
Notes to Financial Statements (continued)
December 31, 2008

14. Contingencies

The Fund indemnifies contracted parties in connection with services provided. From time to time the Fund or such parties may be defendants in litigation. It is not possible to predict the ultimate outcome of any outstanding litigation or estimate any costs which might result.

Financial Position (thousands of dollars)

December 31	2008	2007	2006	2005	2004
Assets					
Cash	$ 209	325	434	127	323
Publicly-traded and short-term investments	-	-	-	303	310
Other investments	5,399	7,001	10,829	10,656	5,666
Other assets	-	-	-	4	68
Total assets	$ 5,608	7,326	11,263	11,090	6,367
Liabilities and Equity (Deficit)					
Investor notes	$ 9,290	9,290	9,290	9,290	9,455
Other liabilities	42	41	255	258	105
Equity (deficit)	(3,724)	(2,005)	1,718	1,542	(3,193)
Total liabilities and equity (deficit)	$ 5,608	7,326	11,263	11,090	6,367

Operating Results (thousands of dollars)

Years ended December 31	2008	2007	2006	2005	2004
Revenues					
Investment income	$ -	-	5	53	78
Interest from cash and publicly-traded and short-term investments	8	17	17	14	25
Other income	-	-	-	3	1
	8	17	22	70	104
Gains (losses) realized on disposal of investments	-	1	118	(248)	(1)
Adjustment to fair value	(1,602)	(3,828)	189	5,234	2,410
Net revenue	(1,594)	(3,810)	329	5,056	2,513
Expenses					
Administration	125	(87)	153	321	154
Financing	-	-	-	1	6
Total expenses	125	(87)	153	322	160
Net (loss) income	$(1,719)	(3,723)	176	4,734	2,353

Note: Effective January 1, 2006, amounts for prior periods were restated to reverse the accrual of interest on Notes after maturity.

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Fund Manager
Saskatchewan Government Growth Fund Management Corporation, which has retained Crown Capital Partners Inc. to provide management services

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